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Business Credit Corporation

1999 ANNUAL REPORT

Northwest Territories
Business Credit Corporation

Northwest Territories

102-02110/

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MESSAGE FROM THE CHAIRPERSON - 1999

THE HONOURABLE STEPHEN KAKFWI
MINISTER
RESOURCES, WILDLIFE AND ECONOMIC DEVELOPMENT

On behalf of the Board of Directors, I have pleasure in presenting the Annual Report of the Northwest Territories Business Credit Corporation (BCC) for the fiscal year ending March 31, 1999.

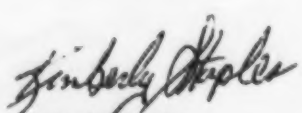
This year was one of change for the BCC.

Firstly, as a result of the creation of the new Nunavut Territory on April 1st, 1999, it was necessary to appoint a new board for the Western Territory in replacement of Directors residing in Nunavut. This meant that the Board lost the services of our Vice-Chairperson, Mr. Keith Peterson and two Directors, Mr. Mark Kalluak and Mr. Robert Hanson. They provided valuable assistance over the years and will be sadly missed.

As replacement Directors for the new Western Territory Board, four Directors were appointed representing Community Futures organizations, a fifth Director was appointed subsequent to the fiscal year end. This was the first step in the anticipated further streamlining of BCC and Community Futures, which will eventually provide streamlined complimentary lending services to most local communities.

The financial results for this year showed a decrease in the number and value of credit facilities authorized compared with the year before. A total of 83 credit facilities were authorized this year for a total of $9.47 million, compared with 119 for $14.6 million in 1998. Although some of this decrease may be attributed to a slow down of economic activity, credit facilities in Level 1 communities declined the most, indicating that regular lending institutions may be assisting established businesses. On the other hand, the number of credit facilities in Level 2 and 3 communities declined less sharply and still formed two thirds of the total for the year, showing that the BCC's financing support is still essential in the smaller communities.

I wish to thank the Board of Directors, the BCC Chief Executive Officer, staff and the Deputy Minister and staff of the Department of Resources, Wildlife & Economic Development, for their support and assistance throughout the year.



Kimberly Staples
Chairperson

BOARD OF DIRECTORS (ON MARCH 31,1999)

Ms. Kimberly Staples	Chairperson	Yellowknife
Mr. Darrell Beaulieu	Vice-Chairperson	Yellowknife
Ms. Freida Martselos	Director	Fort Smith
Mr. Gordon Villeneuve	Director	Fort Simpson
Ms. Alison de Pelham	Director	Fort Simpson
Mr. Michael Maher	Director	Hay River
Mr. Eddie Dillon	Director	Tuktoyaktuk
Mr. Wilfred McNeely Jr.	Director	Fort Good Hope

OUTGOING DIRECTORS (FISCAL 1998 – 1999)

Mr. Keith Peterson	Vice-Chairperson	Cambridge Bay
Mr. Mark Kalluak	Director	Arviat
Mr. Robert Alexie	Director	Inuvik
Mr. Douglas Doan	Director	Yellowknife
Mr. Otto Olah	Director	Yellowknife
Mr. Robert Hanson	Director	Iqaluit

OBJECTIVE

The objective of the BCC is to stimulate economic development and employment in the Northwest Territories, by making loans to businesses enterprises, guaranteeing loans made by financial institutions to business and by providing bonds to resident business enterprises. It is responsible for making business loans to Northern businesses where conventional lending institutions are not prepared to participate. Its role, therefore, is a blend of being a last resort lender and a developmental agency to provide financial support for higher risk entrepreneurial ventures.

HISTORICAL HIGHLIGHTS

- 1970 – The Small Business Loan Fund was created by Indian and Northern Affairs Canada, to provide financing to those businesses and individuals unable to obtain reasonable commercial debt financing from conventional lenders.

- *1977* The Small Business Loan Fund was transferred to the Government of the Northwest Territories. The scope of the fund was expanded to allow the provision of loan guarantees and loan and guarantee limits were increased to $500,000 from $50,000.

- *1982* The Business Loan and Guarantees Fund was opened to all qualifying territorial businesses and the word small was removed from the fund's title. Previously businesses whose gross revenues exceeded $1 million were ineligible.

- *1985* The Fund provided contract security to businesses unable to obtain the bonding required to participate in NWT Housing Corporation construction projects.

- *1986* The Fund's capitalization was increased to $16 million.

- *1989* The Fund's capitalization was increased to $20 million.

- *1991* The *BCC Act* was proclaimed and the Corporation commenced operations. Loan and guarantee limits were raised to $1 million.

- *1992* The assets of the Business Loans and Guarantees Fund were transferred to the Business Credit Corporation.

- *1993* The BCC is included in a review of Department of Economic Development & Tourism in connection with reorganization of the Department and the Business Credit Corporation.

HISTORICAL HIGHLIGHTS (CONTINUED)

- *1994* In accordance with the suggestions incorporated in this review, BCC staff is increased to provide a greater degree of independence and increased service to clients.

  Lending authority, to a maximum of $200,000, is delegated to Regional Superintendents of Department of Economic Development & Tourism. This is designed to provide quicker turn-around time for the majority of BCC loan applications.

  Operational Procedures are formulated by BCC, in consultation with the Department of Economic Development & Tourism, to provide guidance and support to Regional Superintendents and ensure conformity with prudent lending practices, at the same time acting in accordance with Ministerial Directives and the objectives of the BCC.

- *1995* The BCC's fund limit is increased to $23 million. This limit can be extended as far as $50 million under the existing legislation, upon approval of the Financial Management Board.

- *1996* BCC's Fund limit is increased to $28 million.

- *1997* BCC reports to the Minister of the newly amalgamated Department of Resources, Wildlife and Economic Development (RWED).

  Sahtu Regional Office established. Credit facilities to businesses in this area were transferred to Sahtu from the Inuvik Region, who formerly administered this area.

  Access to Capital - a review of lending for small business in the North, is commissioned by RWED. This report considers the BCC and local Community Futures organizations to see how they can work together to provide the best service to the public.

- *1998* BCC's Fund limit is increased to $33 million.

- 1999 BCC's Fund limit is increased to $38 million.

  New Directors, representing Community Futures Organizations, are appointed to the Board on March 31st, 1999.

LENDING PARAMETERS

- Maximum liability for any one business or group of related businesses - $1 million
- Maximum amount for any one business loan, bond, guarantee or indemnity - $1 million
- Maximum loan term – 5 years
- Maximum loan amortization - 25 years
- Interest rate - two percent (2%) over commercial bank's prime lending rate, set quarterly.

ANNUAL STATISTICS

1. Number of applications submitted and approved by region. (Page 7)
2. Value of applications submitted and approved by region. (Page 8)
3. Number of applications submitted and approved by community level. (Page 9)
4. Value of applications submitted and approved by community level. (Page 10)
5. Range of total credit facilities approved and average facility size. (Page 11)
6. Approved credit facilities by economic sector. (Page 12)

COMMUNITY LEVELS

LEVEL 1 COMMUNITIES - Yellowknife, Hay River, Fort Smith, Inuvik.

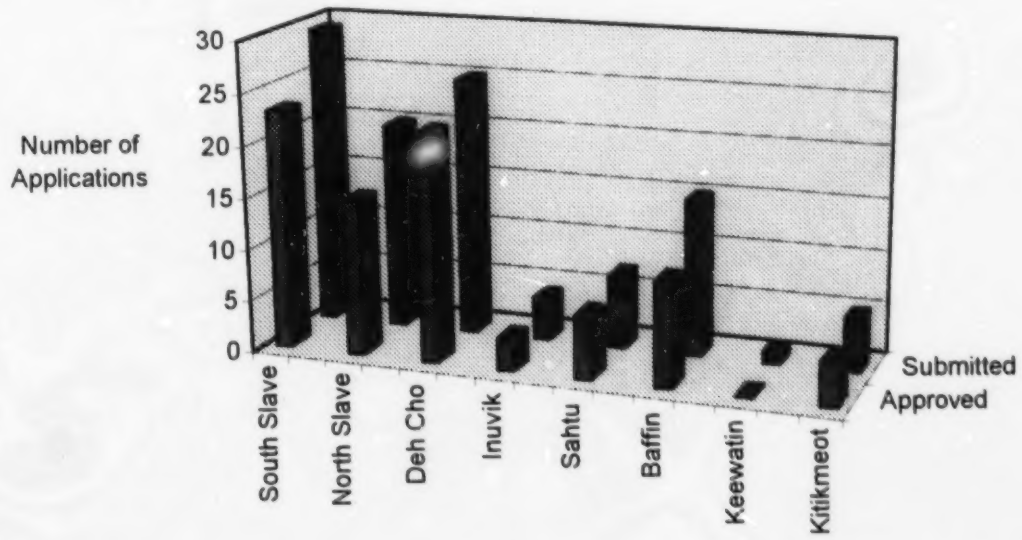
LEVEL 2 COMMUNITIES – Iqaluit, Rankin Inlet, Cambridge Bay, Rae-Edzo, Fort Simpson, Norman Wells.

LEVEL 3 COMMUNITIES – All other communities not listed above.

NUMBER OF APPLICATIONS
Submitted & Approved

Region	1998 Submitted	1999 Submitted	1998 Approved	1999 Approved
South Slave	46	29	39	23
North Slave	31	20	26	15
Deh Cho	22	25	20	22
Inuvik	8	4	7	3
Sahtu	9	7	8	6
Baffin	21	15	14	10
Keewatin	2	1	2	0
Kitikmeot	3	5	3	4
Total	**142**	**106**	**119**	**83**

Number of Applications Submitted and Approved for 1999



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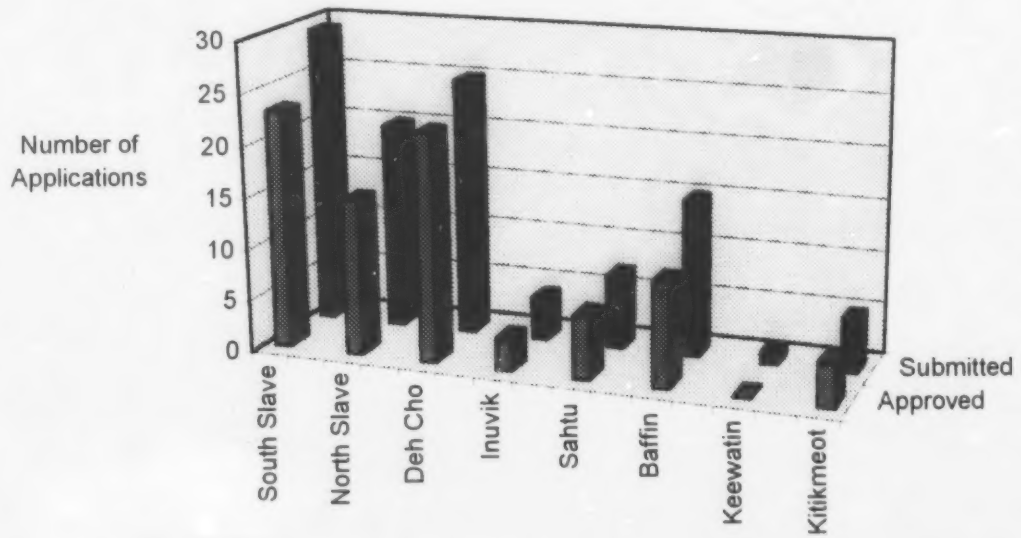
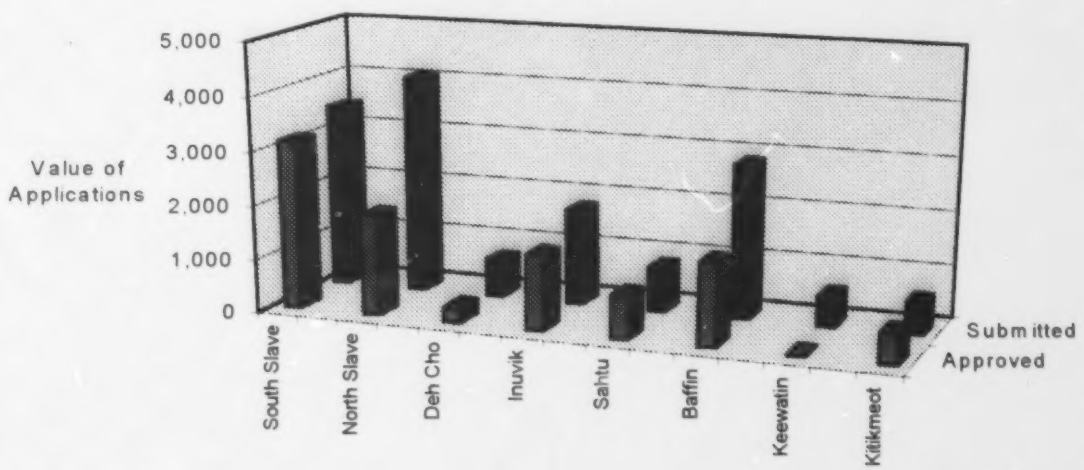


VALUE OF APPLICATIONS
Submitted & Approved

Region	1998 Submitted	1999 Submitted	1998 Approved	1999 Approved
South Slave	6,275	3,431	3,574	3,126
North Slave	5,907	4,067	4,377	1,867
Deh Cho	1,929	694	1,816	262
Inuvik	1,481	1,779	1,481	1,379
Sahtu	1,126	805	1,108	770
Baffin	1,636	2,855	1,493	1,521
Keewatin	388	550	388	0
Kitikmeot	415	580	415	545
Total	**$19,157**	**$14,761**	**$14,652**	**$9,470**

Value of Applications Submitted and Approved for 1999



NUMBER OF APPLICATIONS SUBMITTED AND APPROVED BY COMMUNITY LEVEL

	Number of Applications Submitted		Number of Applications Approved	
	1998	1999	1998	1999
Level I	65	34	54	30
Level II	37	36	31	28
Level III	40	36	34	25
Total	**142**	**106**	**119**	**83**

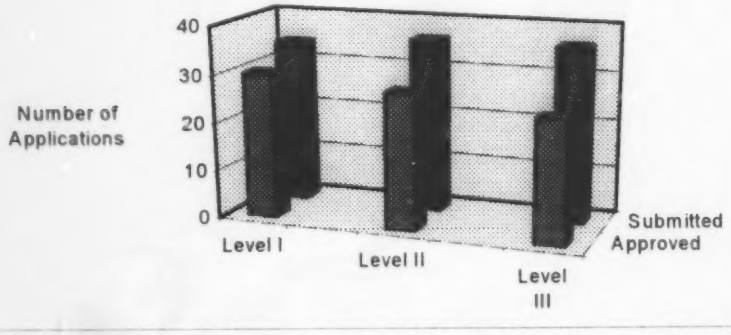
Community Levels

Level 1: Yellowknife, Hay River, Fort Smith, Inuvik

Level 2: Iqaluit, Rankin Inlet, Cambridge Bay, Rae-Edzo, Fort Simpson, Norman Wells

Level 3: All other communities not listed above

Number of Applications Submitted and Approved by Community Level for 1999



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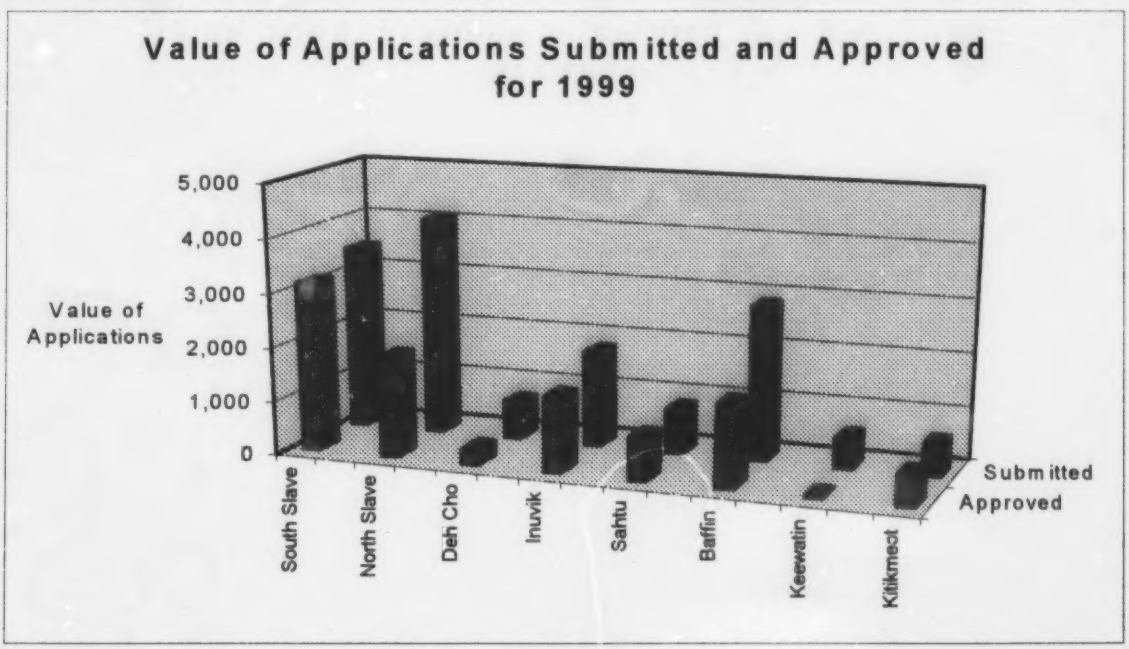

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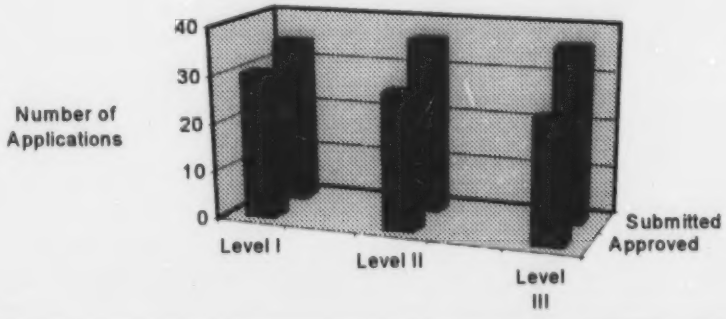

VALUE OF APPLICATIONS SUBMITTED AND APPROVED BY COMMUNITY LEVEL

	Value of Applications Submitted (000's)		Value of Applications Approved (000's)	
	1998	1999	1998	1999
Level I	11,392	6,133	7,163	5,134
Level II	3,325	3,660	3,076	2,240
Level III	4,440	4,967	4,413	2,096
Total	**$19,157**	**$14,760**	**$14,652**	**$9,470**

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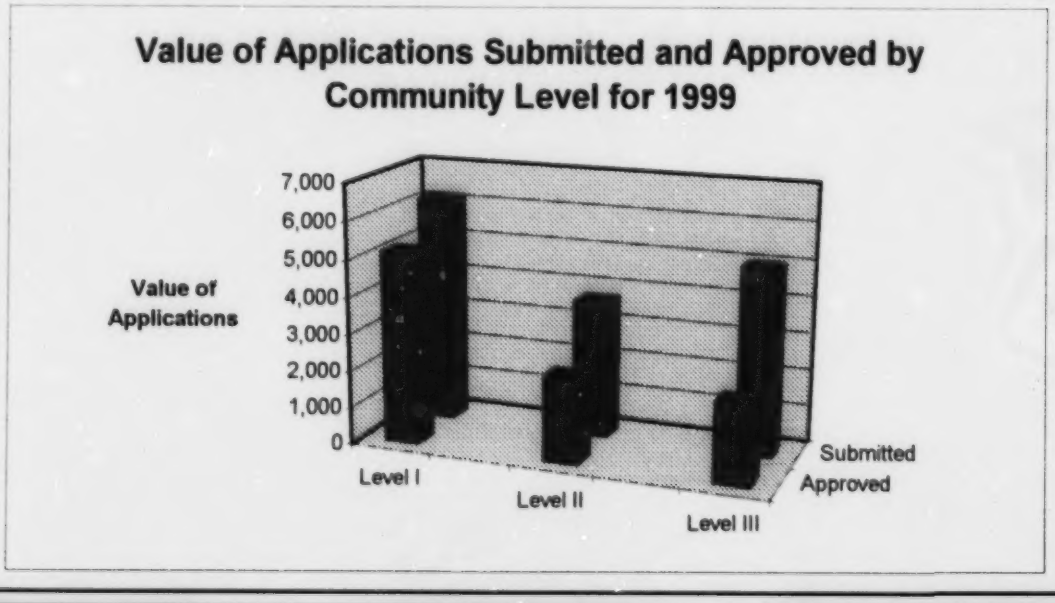
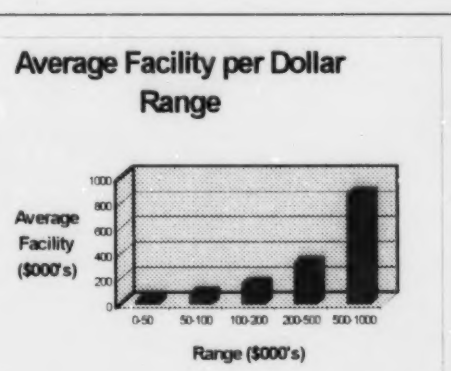


RANGE OF TOTAL CREDIT FACILITIES APPROVED
FISCAL YEAR 1998 – 1999
($000's)

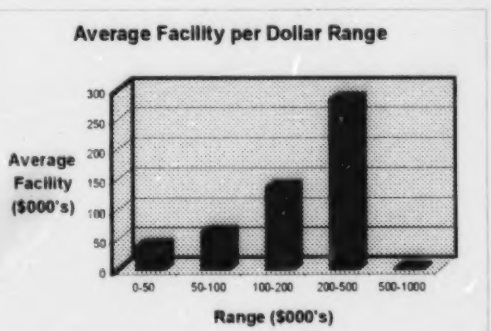
WESTERN ARCTIC

Range	No.	Amount	Avg. Facility 1998/99	Avg. Facility 1997/98
0-50	44	765	17	19
50-100	4	274	68	78
100-200	14	2,020	144	178
200-500	3	925	308	348
500-1000	4	3,420	855	826
Total	***69***	***7404***	***107***	***I24***



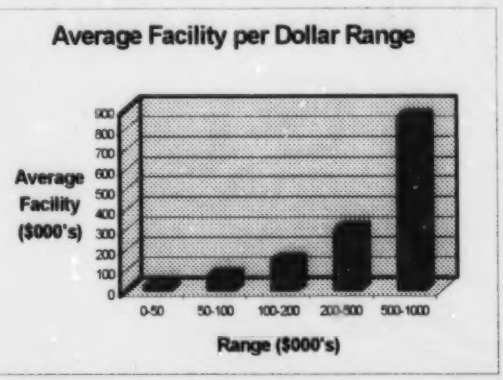
EASTERN ARCTIC

Range	No.	Amount	Avg. Facility 1998/99	Avg. Facility 1997/98
0-50	2	75	37	28
50-100	1	60	60	89
100-200	8	1,086	135	155
200-500	3	845	281	344
500-1000	0	0	0	0
Total	***14***	***2,066***	***147***	***121***



TERRITORIAL TOTAL

Range	No.	Amount	Avg. Facility 1998/99	Avg. Facility 1997/98
0-50	46	840	18	20
50-100	5	334	66	83
100-200	22	3,106	141	173
200-500	6	1,770	295	347
500-1000	4	3,420	855	826
Total	***83***	***9,470***	***114***	***123***



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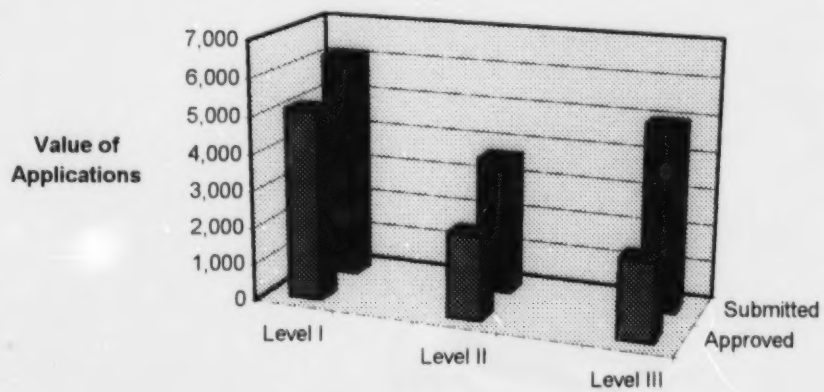

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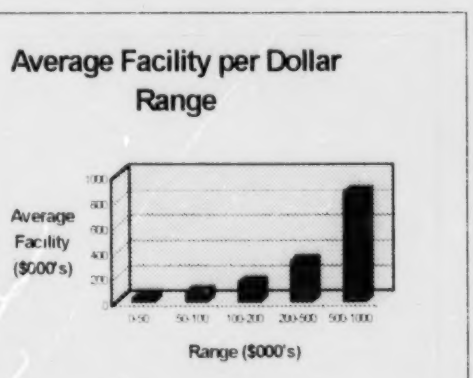

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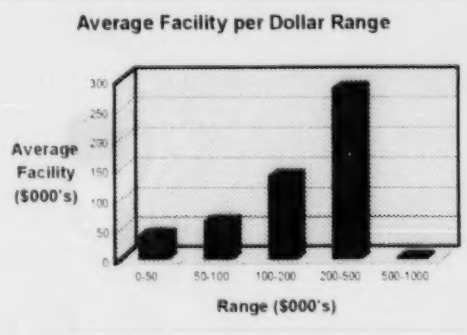

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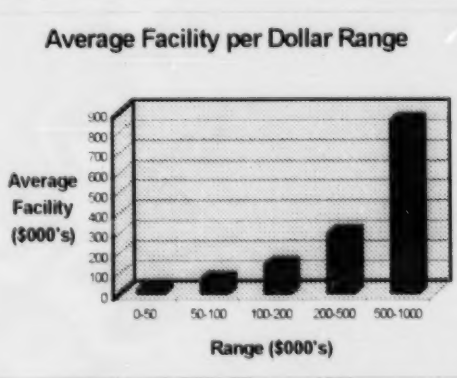
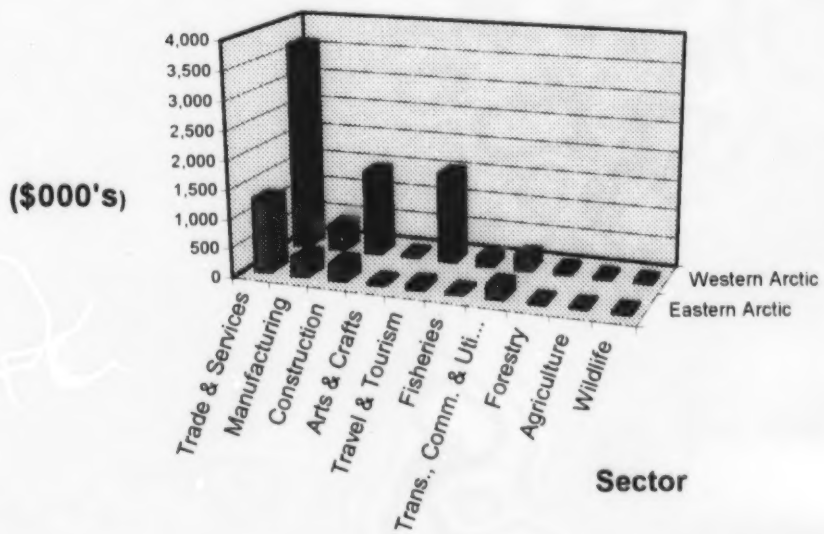


APPROVED CREDIT FACILITIES BY ECONOMIC SECTOR
FISCAL YEAR 1998 - 1999
($000)

Economic Sector	Western Arctic	Eastern Arctic	Territorial Totals 1998/99	Territorial Totals 1997/98
Trade & Services	3,604	1,250	4,854	8,361
Manufacturing	415	300	715	161
Construction	1,457	266	1,723	2,756
Arts & Crafts	10	0	10	15
Travel & Tourism	1,534	50	1,584	1,540
Fisheries	114	0	114	204
Transportation, Communication & Utilities	219	200	419	521
Forestry	51	0	51	134
Agriculture	0	0	0	10
Wildlife	0	0	0	950
Totals	***7,404***	***2,066***	***9,470***	***14,652***

Approved Credit Facilities by Economic Sector for 1999



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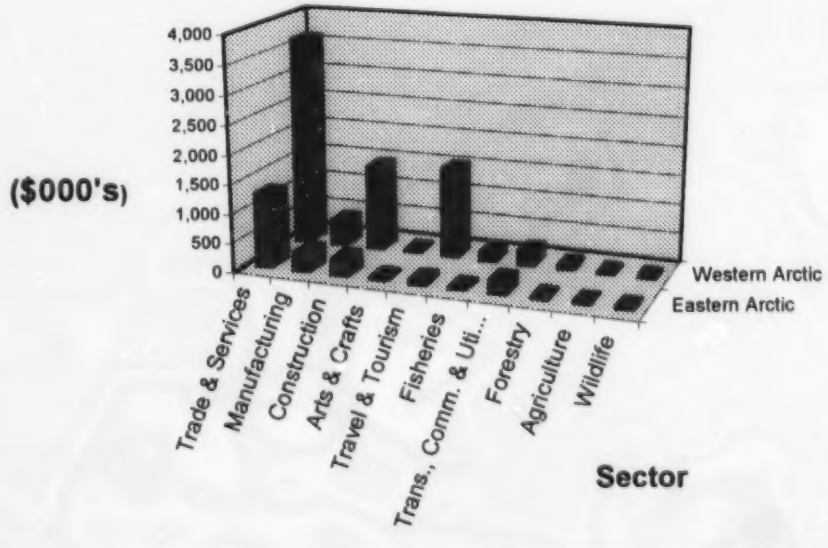

FINANCIAL STATEMENTS

MARCH 31, 1999

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NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Northwest Territories Business Credit Corporation were prepared by management in accordance with generally accepted accounting principles. When alternative accounting policies exist, management has chosen those it deems most appropriate in the circumstances. Financial statements include amounts requiring estimates, which have been made based upon informed judgment as to the expected results of current transactions and events. Management has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with the financial statements.

The Corporation maintains internal financial and management systems and practices which are designed to provide reasonable assurance that reliable financial and non-financial information is available on a timely basis, and that assets are acquired prudently, used to further the Corporation's aims, and are protected from loss.

The Corporation is subject to the Northwest Territories Business Credit Corporation Act and the Financial Administration Act. It also receives ministerial directives establishing policy guidelines. Management recognizes its responsibility for conducting the Corporation's affairs in accordance with the requirements of applicable legislation and for maintaining standards of conduct that are appropriate to a territorial Crown corporation.

The Board of Directors appoints certain of its members to serve on the Management Sub-Committee. This Sub-Committee oversees management's responsibility for financial reporting and reviews and recommends the financial statements to the Board for approval.

The Auditor General of Canada annually provides an independent audit for the purpose of expressing his opinion on the financial statements. He also considers whether the transactions that come to his notice in the course of this audit are, in all significant aspects, in accordance with the specified legislation.

Afzal Currimbhoy,
Chief Executive Officer.

June 4, 1999

AUDITOR GENERAL OF CANADA VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of the
Northwest Territories Business Credit Corporation

I have audited the balance sheet of the Northwest Territories Business Credit Corporation as at March 31, 1999 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Corporation, and the financial statements are in agreement therewith and the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part IX of the *Financial Administration Act* and regulations, the *Northwest Territories Business Credit Corporation Act* and regulations and the by-laws of the Corporation.

Donald M. Young, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 4, 1999

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

BALANCE SHEET
MARCH 31, 1999

	$ 000's	
ASSETS	**1999**	**1998**
Cash (Note 3)	$ 17	$ 139
Loans Receivable (Note 4)	34,224	30,999
Accrued Interest Receivable (Note 4)	276	326
	34,500	31,325
Less: Allowance for Losses on Impaired Loans (Note 5)	5,082	5,080
	29,418	26,245
Accounts Receivable	-	122
Capital Assets (net of accumulated amortization of $38 (1998: $36))	10	10
	$ 29,445	$ 26,516
LIABILITIES		
Accounts Payable	$ -	$ 122
Deferred Capital Contribution	10	10
Advance from the Government of the Northwest Territories (Note 6)	31,373	28,287
	31,383	28,419
DEFICIT		
Deficit	(1,938)	(1,903)
	$ 29,445	$ 26,516

CONTINGENT LIABILITIES (NOTE 7)

APPROVED:

Chairperson of the Board of Directors

Chief Executive Officer

The accompanying notes form an integral part of the financial statements.

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

STATEMENT OF OPERATIONS AND DEFICIT
For the Year Ended March 31, 1999

	$ 000's	
LENDING ACTIVITIES	**1999**	**1998**
Interest Income on Loans Receivable	$ 1,959	$ 1,823
Interest Expense on Advance from the Government of the Northwest Territories (Note 6)	1,520	1,299
Net Interest Income	439	524
Provision for Losses on Impaired Loans (Note 5)	474	377
Net (Loss) Income on Lending Activities	(35)	147
ADMINISTRATIVE EXPENSES		
Salaries and Benefits	493	427
Professional Fees & Legal Claims	60	179
Board Meetings	53	68
Office	43	50
Computer Services	34	33
Communications	23	17
Amortization	7	11
	713	785
Net (Loss) before Government Contribution	(748)	(638)
Less: Administrative Contribution - Government of the Northwest Territories	713	785
NET (LOSS) INCOME FOR THE YEAR	(35)	147
DEFICIT AT THE BEGINNING OF THE YEAR	(1,903)	(2,050)
DEFICIT AT THE END OF THE YEAR	$ (1,938)	$ (1,903)

The accompanying notes form an integral part of the financial statements.

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

STATEMENT OF CASH FLOWS
For the Year Ended March 31, 1999

	$ 000's	
	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest Income on Loans Receivable	$ 1,981	$ 1,783
Administrative Contribution Received	836	663
Administrative Expenses Paid	(829)	(653)
Interest Received on Bank Account	26	9
	2,014	1,802
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans Receivable Repaid	7,147	5,141
Loans Receivable Disbursed	(10,842)	(9,829)
Purchase of Capital Assets	(7)	(8)
	(3,702)	(4,696)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advance from the Government of the Northwest Territories	2,789	3,473
Repayment of Advance from the Government of the Northwest Territories	(1,223)	(722)
	1,566	2,751
NET DECREASE IN CASH	$ (122)	$ (143)
Cash at Beginning of the Year	$ 139	$ 282
Cash at End of the Year	$ 17	$ 139

The accompanying notes form an integral part of the financial statements.

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 1999

1. AUTHORITY, OBJECTIVE AND OPERATION

The Corporation was established in 1991 pursuant to the Northwest Territories Business Credit Corporation Act (Act). It is subject to the Financial Administration Act and is a Crown corporation of the Government of the Northwest Territories (the Government).

The Corporation's objective is to stimulate economic development and employment in the Northwest Territories to resident business enterprises, by providing loans, guaranteeing loans made by financial institutions, providing bonds and indemnifying bonding companies which have provided bonds. In addition, the Corporation is responsible for making business development loans to Northern businesses to create economic development opportunities in communities where conventional lending institutions are not prepared to participate. The Corporation's role is a blend of being a last resort lender and a developmental agency for higher risk entrepreneurial ventures.

On April 1, 1999, subsequent to the fiscal year end, the Nunavut Act came into force. As a result, all operations in Nunavut will be taken over by the Government of Nunavut and its crown corporations. Notwithstanding this significant change in future operations, these financial statements have been prepared on a going concern basis. It is not practical to determine the potential impact on future operations of the two Business Credit Corporations. Note 9 provides further information about this subsequent event.

Economic dependency

The Corporation is economically dependent upon the Government's continuing contributions for direct administrative expenses and advances.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Corporation have been prepared in accordance with generally accepted accounting principles. The significant accounting policies followed by the Corporation in the preparation of these financial statements are summarized below.

Loans

Loans are stated at the lower of principal amounts or estimated realizable amounts receivable. Accrued interest receivable and an allowance for loan impairment are recorded separately.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Allowance for loan impairment

The allowance for loan impairment represents management's best estimate of probable losses on loans at the end of the fiscal year. The allowance has a specific and general component.

a) Specific allowance: A loan is classified as impaired when one or more of the following conditions exist:

- in the opinion of management, there is reasonable doubt to the ultimate collectability of principal or interest, or
- principal or interest is six months past due, unless the loan is well secured, or
- the loan has been previously restructured and principal or interest is three months past due, or
- principal or interest is twelve months past due regardless of whether or not the loan is well secured.

When a loan is classified as impaired, the carrying amount of the loan is reduced to its estimated realizable amount. This is the lower of the recorded amount of the loan or the estimated net fair market value of the underlying security of the loan. The amount of initial impairment and any subsequent changes in the amount of impairment are recorded as a charge or credit to the specific allowance for loan impairment.

b) General allowance: In addition to the specific allowance, the Corporation maintains a general allowance, established at two percent (2%) of loans receivable, net of the specific provision, to reflect management's estimate for losses on those impaired loans which cannot yet be specifically identified. The general allowance is determined based on historical loss experience, aggregate exposure in particular industries or geographical regions, and prevailing economic conditions.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Revenue recognition

Interest revenue on loans receivable is normally recognized on an accrual basis. The Corporation ceases to accrue interest once a loan is classified as impaired. Payments received on impaired loans are credited to loan principal and recognized as revenue only when either the principal has been repaid or the loan is no longer classified as impaired. Payments received on any previously written off loans are recognized as revenue.

Capital assets

Capital assets are recorded at cost. Amortization is calculated on a straight line basis over the estimated useful life of the assets as follows:

Computers	3 years
Furniture and Equipment	4 years

Pension contributions

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation matches employees' contributions for current or prior service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the Corporation.

3. CASH

The Corporation's cash is pooled with the Government's surplus cash that is invested in a diversified portfolio of high grade, short-term income producing assets. The cash can be withdrawn at any time, and is not restricted by maturity dates on investments made by the Government. The eligible classes of securities, categories of issuers, limits and terms are approved by the Department of Finance. All instruments depending on the investment class, are rated R-2 High or better from the Dominion Bond Rating Service or A-3 or better from the Canadian Bond Rating Service. The Corporation's average investment yield was 4.6% during the year (1998: 3.4%).

Net investment income of $26,000 (1998: $9,000) is included in Interest Income on Loans Receivable.

4. LOANS AND ACCRUED INTEREST RECEIVABLE

	Range of Annual Interest Rates		$ 000's	
Region	1999	1998	1999	1998
Loans Receivable				
Baffin	6.75- 9.25%	6.75-11.75%	$ 2,430	$ 1,913
Deh Cho	6.75-14.25%	6.75-14.25%	2,655	2,893
Inuvik	6.75- 9.25%	6.75-10.00%	1,943	1,616
Keewatin	6.75- 9.50%	6.75-11.50%	2,016	2,198
Kitikmeot	6.75-10.75%	6.75-10.75%	2,929	2,889
North Slave	6.75- 9.25%	6.75-12.00%	8,668	8,512
Sahtu	6.75- 8.75%	6.75-10.00%	2,634	1,686
South Slave	6.75-10.25%	6.75-10.75%	10,949	9,292
			34,224	30,999
Accrued Interest Receivable				
Current			140	190
Arrears			136	136
			276	326
			$ 34,500	$ 31,325

Loans receivable and accrued interest include $7,692,000 (1998: $7,278,000) that the Corporation has specifically classified as impaired.

In 1999, interest not accrued on impaired loans totalled $692,000 (1998: $726,366).

Write-offs

Under the provisions of the Financial Administration Act, a loan (outstanding principal and interest) can only be approved for write-off by either the Legislative Assembly (over $20,000) or the Board of Directors ($20,000 or less). A loan written off is still subject to collection action.

4. LOANS AND ACCRUED INTEREST RECEIVABLE (CONT'D)

Write-offs (cont'd)

In 1999, six accounts representing three borrowers totalling $349,049 were written off by the Legislative Assembly (1998: eleven accounts representing three borrowers totalling $325,519). No loans were written off by the Board of Directors (1998: nil).

In 1999, $2,300 was received on loans written off in previous years (1998: nil).

Forgiveness

Under the provisions of the Financial Administration Act, a loan can only be approved for forgiveness by either the Legislative Assembly (over $1,000) or the Financial Management Board ($1,000 or less). Once a loan has been forgiven, no further collection action is possible.

In 1999, five accounts representing five borrowers totalling $123,830 were forgiven by the Legislative Assembly (1998: five accounts representing one borrower totalling $40,455). None of the accounts had been approved for write off previously. No accounts were forgiven by the Financial Management Board (1998: nil).

Credit Risk

The Corporation's credit risk exposure relating to loans receivable is directly impacted by the borrowers' ability to meet their obligations. This ability is impacted by the borrowers' similar exposure to fluctuations in the economy of the Northwest Territories.

The Corporation mitigates credit risk by holding no significant concentration with any individual borrower. It is prevented by the Act to lend any one business enterprise or a group of related enterprises an amount in excess of $1 million.

5. ALLOWANCE FOR LOSSES ON IMPAIRED LOANS

	$ 000's	
	1999	1998
Specific Allowance for Losses on Impaired Loans:		
Balance at beginning of year	$ 4,550	$ 4,627
Provision for the year	408	289
	4,958	4,916

5. ALLOWANCE FOR LOSSES ON IMPAIRED LOANS (CONT'D)

	$ 000's	
	1999	1998
Less: write-offs	348	326
forgiveness	124	40
	472	366
Balance at end of year	4,486	4,550
General Allowance for Losses on Impaired Loans:		
Balance at beginning of year	530	442
Provision for the year	66	88
Balance at end of year	596	530
Allowance for Losses on Impaired Loans	$ 5,082	$ 5,080

6. ADVANCE FROM THE GOVERNMENT OF THE NORTHWEST TERRITORIES

The Act authorizes the Corporation to borrow for the purpose of lending, up to $50 million from the Government of the Northwest Territories through an advance. Increases to the outstanding balance of the advance must be approved by the Financial Management Board based on the need of the Corporation. The balance was not to exceed $38 million on the balance sheet date.

Interest on the advance is calculated at a rate of selected Government of Canada 3 year bond rates at the end of each month, compounded annually. The rate varied from 4.7% to 5.7% during the year (1998: 4.7% to 5.4%).

There are no fixed repayment terms on the advance. Repayment on the advance is made whenever the Corporation has sufficient cash on hand not earmarked for lending purposes.

The carrying amount of the advance from the Government of the Northwest Territories of $31,373,000 (1998: $28,287,000) approximates fair value.

7. CONTINGENT LIABILITIES

One legal proceeding against the Corporation is pending related to steps taken by the Corporation to call and enforce rights in collateral security of a loan.

The Corporation is named as co-defendant in the proceeding. The amount of the claim is $11,000,000 plus costs. The Corporation's share of potential liability, if any, resulting from this action is not determinable and consequently no liability has been reflected in these financial statements. Liability, if any, will be reflected as an expense when determined.

8. RELATED PARTY TRANSACTIONS

In addition to those related party transactions disclosed, the Corporation is related in terms of common ownership to all Government of the Northwest Territories created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

Administrative contribution

Under the terms of administrative agreements between the Corporation and the Government, direct administrative expenses paid by the Government are recorded by the Corporation as an administrative contribution from the Government.

Services provided without charge

The Corporation does not record the value of other capital assets or services provided by the Government without charge in these financial statements. Services provided by the Government include accounting support, employee long term benefits, regional and personnel services as well as office accommodation and some capital assets. Their values are estimated as follow:

	$ 000's	
	1999	1998
Staff support	$ 206	$ 199
Accommodation	42	42
Employee long term benefits	2	5
	$ 250	$ 246

8. RELATED PARTY TRANSACTIONS (CONT'D)

Furthermore, the Corporation receives audit services without charge from the Auditor General of Canada.

9. SUBSEQUENT EVENTS

On April 1, 1999, subsequent to the fiscal year end, the Nunavut Act came into force.

a) Division of assets and liabilities

The creation of Nunavut requires the transfer of Government assets and liabilities. On March 29, 1999, an agreement between the Government of the Northwest Territories and the Interim Commissioner of Nunavut, set out an approach for the division of the assets, liabilities and surplus/deficit of the Government, including the Northwest Territories Business Credit Corporation. The approach, as applied to the Corporation, is as follows:

1. Apportion the accumulated deficit using the agreed upon ratio of 55.66% to the Corporation and 44.34% to the Nunavut corporation.

2. Allocate assets and liabilities on a basis that the two Corporations and Governments agree to be practicable, where possible on a geographic basis.

3. Adjust any difference, between the value of assets and liabilities allocated and the accumulated deficit apportioned, on a basis that the two Corporations and Governments agree to be practical.

Applying this approach to the March 31, 1999 financial statements of the Corporation results in the following allocation:

9. SUBSEQUENT EVENTS (CONT'D)

a) Division of assets and liabilities (cont'd)

BALANCE SHEET	$ 000's		
		April 1, 1999 Corporation in	
ASSETS	March 31, 1999	N.W.T.	Nunavut
Cash	$ 17	$ 9	$ 8
Loans Receivable	34,224	26,848	7,376
Accrued Interest Receivable	276	195	81
	34,500	27,043	7,457
Less: Allowance for Losses on Impaired Loans	5,082	4,440	642
	29,418	22,603	6,815
Capital Assets (net of accumulated amortization of $38 (1998: $36))	10	10	-
	$ 29,445	$ 22,622	$ 6,823
LIABILITIES			
Deferred Capital Contribution	$ 10	$ 10	$ -
Advances from the Government of the Territories	31,373	23,691	7,682
	31,383	23,701	7,682
DEFICIT			
Deficit	(1,938)	(1,079)	(859)
	$ 29,445	$ 22,622	$ 6,823

9. SUBSEQUENT EVENTS (CONT'D)

b) Chargeback of services

The Corporation has entered into a service agreement with the Nunavut corporation. In this agreement, the Corporation will provide various corporate and program delivery services to the Nunavut corporation for the fiscal year 1999-2000. The estimated charge for this service is approximately $159,750.

10. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Corporation's ability to conduct normal business operations. Management has developed and is implementing a plan designed to identify and address the expected effects of the Year 2000 Issue on the Corporation. As at March 31, 1999, the Corporation has commenced the identification of computer systems that will require modification or replacement. An assessment of the readiness of third parties such as customers, suppliers and others is ongoing. However, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

11. COMPARATIVE FIGURES

Certain comparative financial information has been reclassified to conform with this year's presentation.

LOAN ACCOUNTS WRITTEN OFF
(FISCAL 1998 / 1999)

1.	Active Service and Maintenance Ltd.	$ 99,639.11
2.	Arctic Foto Lab Partnership between Chandra Mudalair and Lumen Marianayagam	43,332.43
3.	Marathon Waterworks Ltd	206,077.90
		$ 349,049.44

LOAN ACCOUNTS FORGIVEN
(FISCAL 1998 / 1999)

1.	943558 N.W.T. Ltd. Known as The Sweetgrass Cafe	$ 31,241.08
2.	Datascan International A proprietorship of Brian T. Milligan	7,486.93
3.	Hay River Taxi Ltd.	55,664.21
4.	Infonet Services A proprietorship of Rohit Dhamija	6,576.05
5.	Repulse Bay Coffee Shop A partnership between William J. Beveridge, Debra Tagornak and William A. Beveridge	22,861.91
		$ 123,830.18